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C O N F I D E N T I A L SECTION 01 OF 03 DHAKA 001031

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SUBJECT: BANGLADESH MOVES TO DEVELOP ENERGY RESOURCES

REF: A. A: DHAKA 954
[1](#)B. B: DHAKA 897

Classified By: Ambassador James Moriarty, for reasons 1.4 (b) and (d)

SUMMARY:

[1](#)1. (C) The GOB is taking steps to encourage foreign investment in natural gas exploration and other energy projects. New Petrobangla Chairman Dr. Hossain Monsur told the Ambassador the company wanted to attract foreign investment to develop natural gas and power generation projects. Chevron, the country's largest foreign investor, plans additional investments in exploration and energy infrastructure, while another U.S. firm, ConocoPhillips, is negotiating to explore off-shore blocks. Although GOB leaders have set ambitious objectives for developing gas and power projects, familiar obstacles of bureaucracy, corruption and factional infighting at Petrobangla are slowing implementation of their goals.

PETROBANGLA CHAIRMAN: "WE NEED YOUR HELP"

[1](#)2. (C) Dr. Hossain Monsur, the newly appointed Chairman of the state-owned Bangladesh Oil, Gas and Mineral Corporation (Petrobangla), told the Ambassador November 2 his top priority was expediting investments to reduce gas and power shortages. Dr. Monsur took his position in October, after his well-regarded predecessor reached mandatory retirement age. In the past Monsur has supported groups that opposed foreign investment in the energy sector; this stance led local experts to question the Prime Minister's decision to appoint Monsur to the Petrobangla post. Since his appointment, however, Monsur has distanced himself from his previous stance and has said publicly foreign investment was crucial to the development of Bangladesh's energy sector. Monsur served as Petrobangla Chairman for three months in 2001, and he noted to the Ambassador deterioration in the energy sector since then that led to major power shortages. Monsur underscored that current gas and power shortages increased the urgency of developing new energy resources. Noting his company's limited technical resources, Monsur told the Ambassador "we need your help" in bringing international oil companies to Bangladesh.

ROADSHOWS TO ATTRACT FOREIGN INVESTMENT

[1](#)3. (C) Chairman Monsur said the GOB was preparing to hold "roadshows" in December in New York, London and Singapore to explain investment opportunities in Bangladesh's energy sector. The Ambassador commented that several U.S. companies

were interested, but Bangladesh needed to offer attractive Production Sharing Contracts (PSCs) and ensure a stable investment climate. With the right conditions, several U.S. companies were optimistic about finding additional gas reserves, the Ambassador added. He observed there was increasing consensus that energy shortages were the principal constraint on Bangladesh's economy; addressing energy shortages could potentially increase annual GDP growth to over 7 percent.

MUCHAI COMPRESSION PROJECT MOVES FORWARD

¶4. (SBU) The Ambassador said he was pleased to see Chevron's gas compression project in northeastern Bangladesh moving forward. (Note: At Petrobangla's request, Chevron agreed to invest \$52.7 million to build a gas compression station under its existing PSC. According to Chevron, the project will clearly benefit all parties involved (Chevron, Petrobangla and the country as a whole) through increasing gas flow by up to 10 percent and raising recoverable reserves by a similar amount. The project was originally part of an Asian Development Bank (ADB)-funded program to build three compressors, but the tender was cancelled after bids far exceeded ADB funding for the project. ADB still plans to finance the two other compression stations. End Note.) The Petrobangla Chairman agreed the compressor project was "badly needed" to stabilize gas pressure and improve gas transportation capabilities.

CHEVRON EXPECTS MORE GAS

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¶5. (SBU) The Petrobangla Chairman expressed keen interest in the potential for gas in Block 7 to supply the southwestern region of Bangladesh which has suffered economic decline due to its isolation and limited energy supplies. Chevron Country Manager Steve Wilson told the Ambassador in August Chevron planned exploration drilling of a new onshore block 7 in 2010, followed by additional exploration of its existing Jalalabad and Bibiyana gas fields in northeastern Bangladesh. Wilson also reported that independent analysts more than doubled their estimates of recoverable reserves at its Bibiyana field to 4.4 trillion cubic feet (TCF). He predicted that recoverable reserves at Jalalabad may also double from 1 to 2 TCF.

CONOCOPHILLIPS NEGOTIATING OFFSHORE EXPLORATION

¶6. (C) Another U.S. firm, ConocoPhillips, is negotiating a Production Sharing Contract (PSC) to explore for oil and gas in two offshore blocks in the Bay of Bengal. In September, the GOB authorized Petrobangla to negotiate a PSC with ConocoPhillips to explore two of eight blocks that it won through an international tender under the Caretaker Government. The remaining six offshore blocks are subject to maritime boundary disputes with India and Burma. In a meeting with the Ambassador in October, ConocoPhillips representatives predicted they would sign a PSC by the end of 2009 and conduct initial 2-D seismic exploration by April 2010, before the next monsoon season. They also underscored their interest in retaining rights to explore the other six blocks once the maritime boundary disputes are resolved. The Prime Minister told the Ambassador in early October that these six blocks would be rebid (ref A).

¶7. (C) Representatives from several other oil companies (Chevron, Santos and Okland) have expressed doubts about whether ConocoPhillips will go ahead with its exploration under the PSC terms that Bangladesh is currently offering. One source argued that Conoco placed aggressive bids that ceded most profits to Petrobangla, so it would make little sense for them to explore their blocks unless the terms were

renegotiated.

OKLAND SEEKING PSC EXTENSION

18. (SBU) Another U.S.-based oil company, Okland International, has applied for a one-year extension of its PSC for offshore Blocks 17 and 18 near Cox's Bazaar. After signing the PSC in 1997, Okland recruited Tullow to perform seismic work and drill one exploration well in 1999. When Tullow withdrew, Okland brought in Total to conduct further seismic analysis. Okland reports that it is currently negotiating with Santos and seeking other partners to conduct additional exploration on these blocks.

"FORCES OF DISRUPTION" PERSIST

19. (C) Chevron has complained that "forces of disruption" within Petrobangla have stoked public controversy over the Muchai project and delayed progress on exploration projects. As Chevron sought project approvals, several Petrobangla officials publicly raised questions over project benefits, lack of a competitive bidding process and whether Chevron's PSC could legally cover the Muchai project. More recently, Chevron complained that factions within Petrobangla were obstructing its efforts to bring in a new partner for its Block 7 exploration project. While encouraged by the Chairman's statements, Chevron officials underscored the challenges he will face in managing a "viper's nest" of factional intrigue within the company. (Note: Petrobangla approved on November 4 Chevron's proposal to bring in a new partner for Block 7 exploration.)

110. (C) Chairman Monsur acknowledged that small groups have vocally opposed foreign involvement in gas exploration, but he emphasized the Government of Bangladesh had a strong mandate to develop energy resources. Following GOB approval of ConocoPhillips exploration projects, a small non-governmental organization, the National Committee to Protect Oil, Mineral Resources, Power and Ports (the

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Committee) organized a "hartal" (public strike) to protest the involvement of foreign oil companies in developing Bangladeshi resources (ref B). The hartal attracted limited support and caused only minor traffic disruptions.

COMMENT

111. (C) After years with no gas exploration, the GOB has sensible plans to bring in international oil companies to explore for natural gas. Implementation of these plans has proceeded slowly initially. The appointment of a new Petrobangla chairman raised questions about his ability and willingness to implement these plans, given opposition from factions within his company and his previous anti-foreign investment stance. Chairman Monsur has changed his tune with regard to foreign investment in the energy sector and now appears to be toe-ing the line set by Prime Minister Sheikh Hasina, who strongly supports foreign investment in Bangladesh. It is encouraging to note that Monsur has blessed the Chevron compressor project and proposal on Block 17. Mission Dhaka will continue to actively engage with Petrobangla and GOB contacts to encourage a consistent policy framework that encourages foreign, particularly U.S., investment.

MORIARTY